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Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

BUSINESS REVIEW AND PROSPECTS

Business Review

Despite the challenging environment faced by China's pharmaceutical industry in the first half of 2011, the Group has not only managed to maintain the growth momentum by achieving significant increase in both turnover and profit over the same period last year, but has also laid down an auspicious foundation to continue the accelerated growth in the future by making ready a series of products to be launched in the second half of the year and beyond.

The robust growth of 65% in turnover achieved in the first quarter over same period last year was followed by another strong quarter with a sequential expansion of 23%. The attained revenue of HK\$90,944,000 in the second quarter this year represented a 50% increase over the same quarter last year. Turnover for the first six months of 2011 amounted to HK\$164,623,000 which represented an increase of 56% over same period last year. The significant uplift in sales was primarily driven by *Slounase*[®] and *Carnitene*[®] which both are newly entrant of new national pharmaceutical reimbursement list. Sales of *Slounase*[®] and *Carnitene*[®] for the first half year of 2011 surged notably by 62% and 71% respectively compared with same period last year. Sales performance of *Ferplex*[®] was also outstanding with sales for the first six months of 2011 grew by 52% over same period last year, contributing to the phenomenal growth of overall sales of existing products.

* For identification purposes only

The net profit attributable to shareholders for the first half of 2011 attained a new height of HK\$33,356,000, representing an increase of 27% over the same period last year. Although the net profit grew with a slower pace than revenue due to the considerable spending on establishment of direct sales force, it is encouraged to see a steadfast improvement in gross profit margin. On the heel of reaching historical height of 73.7% in the first quarter, the gross profit margin picked up another 0.6 percentage point to arrive at an impressive level of 74.3% in the second quarter. The improvement was the results of relentless pursuit of production excellence and economy of scale in the Group's manufacturing facility in Hefei, China.

During the quarter, the Group had also accomplished its task of creating a direct sales force organization. Within 12 months, strong infrastructure with 250 sales representatives has been put into place, covering 26 most populated and economically important cities in China. The investment has impacted the Group's profitability in the last few quarters as administration cost and sales and marketing spending climbed substantially. However, with the Group's direct sales organization entering into the consolidation phase after the initial 12 months build-up, it is expected to see a reverse of trend in sales and marketing spending in the coming quarter. In addition, the contribution of the direct sales organization to the growth of turnover of the Group will become more prominent. The Directors believe that the "hybrid engine model" of combining extensive distributor network with direct sales force will be instrumental for maintaining sustainable growth of both turnover and profitability for the Group in the future.

The Group also made noteworthy advances in drug development in the first half of 2011, significantly boosting the number of near term projects that could be materialised in the no too distance future. The review process for two of Group's products have been completed and all possible technical hurdles have been cleared. Final decision on them could be expected soon. Also, subsequent to the completion of Propionyl-L-Carnitine study last December, registration studies for both *Mictonorm*[®] and Acetyl-L-Carnitine were completed during the period under review. Import Drug License application for Propionyl-L-Carnitine has been submitted and accepted for review by China SFDA in June 2011. Applications for *Mictonorm*[®] and Acetyl-L-Carnitine will be submitted in September and October 2011 respectively. All three products could conclude their respective review by the SFDA in 2012.

In addition, Group has successfully submitted application for New Drug Registration in PRC for the license-in drug *Natulan*[®], for the treatment of Hodgkin's lymphoma and certain brain cancers under fast track designation. The priority review could allow the review process to be finished in 12 to 15 months. The phase I study for the Group's proprietary, first-in-class anti-platelet 1b antagonist *Declotana*[®] was successfully concluded in April 2011. The results show that *Declotana*[®] possesses the characteristics of so called "ideal" anti-platelet drug with fast onset time, good reversibility and low bleeding risk. The proof-of concept phase II study for acute coronary syndromes is scheduled to start in October 2011. Should *Declotana*[®]'s efficacy be demonstrated in the study, it could fulfill a significant unmet medical need. During the period, the Group received approval to conduct registration clinical study for Trazodone, an anti-depression drug in licensed from Angelini of Italy. The planning of the study has progressed smoothly and site selection has been completed. Enrollment is expected in third quarter of 2011.

The Group had also reached important milestones in international partnership during the first half of 2011. It has participated in United Therapeutics' global pivotal phase III study for oral Trepstinil. UT-15C study ("Freedom-C") is a randomized, double blinded, placebo controlled, multicentre phase III study. It involves over thirty centers in US, Europe, Central America, India and China. The Group had been able to help United Therapeutics to secure approval from China SFDA for this international phase III study in an expedited way. It also coordinated the efforts of three study sites in China, resulting in completion of enrollment within the set schedule. The study results have been announced and the positive outcome should facilitate the marketing approval of oral Trepstinil by the US FDA.

The Group is also working with Jennerex on a global phase II study for JX-594 in treatment of late stage liver cancer. This randomized, open labeled and best care controlled study plans to enroll 120 patients from centers in US, Europe, Taiwan, Korea and Hong Kong. Preliminary study has demonstrated that JX-594 significantly improves the overall survival of late staged liver cancer patients. HEP-018 study will evaluate the effect of JX-594 in liver cancer patient refractory to Sorafenib and ascertain its effectiveness in extending the overall survival of the patients.

PROSPECTS

The Directors remain optimistic on the outlook of Group in the near future and beyond.

The continual commitment of Chinese government to expand health care coverage to broader population will drive up the overall demand for pharmaceuticals, presenting new opportunity for the Group's existing products.

The scheduled launch of *Brio*[®] PTCA Balloon Catheters for the treatment of acute coronary syndrome and *Gaslon N*[®] for the treatment of gastric ulcer in the third quarter this year will certainly bring excitement to our sales team and customers alike, opening new horizon for revenue growth in the future. Together, the Group increases its products in the market place to eleven, enhancing its competitiveness in the market place. Among them, five products have been launched within last two years, injecting vital energy to the product line of the Group.

In the second half of 2011, new approval for the Group's license-in products could also be expected. Several submissions will be made, including *Remodulin*[®], a drug for pulmonary arterial hypertension. The expected new approval and new submission will provide new opportunity of growth for the Group.

Last, but not least, the Group purchased a land site located at Nansha Pearl River Industrial Park to cope with the expansion need in July 2011. A new factory will be built on the site for production of proprietary products of the Group. Production facility for several different dosage formulations is envisaged for the site. The erection of the facility will significantly enhance the Group's production capability and capacity.

The board of directors is confident that the Group will remain on track for its rapid growth and will continue to deliver satisfactory return to its shareholders in the future.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	(2)	90,944	60,678	164,623	105,287
Cost of sales		(23,410)	(17,815)	(42,765)	(29,936)
Gross Profit		67,534	42,863	121,858	75,351
Other revenue		1,965	1,306	3,168	2,317
Gain on deemed disposal of a subsidiary		–	–	–	234
Gain on deemed disposal of associates	(4)	–	–	6,441	–
Selling and distribution expenses		(39,918)	(16,197)	(71,071)	(29,085)
Research and development expenses		(1,941)	(1,572)	(5,558)	(2,993)
Administrative expenses		(8,459)	(7,532)	(16,315)	(13,789)
Profit from operations	(6)	19,181	18,868	38,523	32,035
Finance costs		(201)	(304)	(460)	(521)
Share of results of associates	(5)	–	(235)	(273)	(463)
Profit before taxation		18,980	18,329	37,790	31,051
Taxation	(7)	(2,638)	(2,758)	(4,472)	(4,771)
Profit for the period		<u>16,342</u>	<u>15,571</u>	<u>33,318</u>	<u>26,280</u>
Attributable to:					
Shareholders of the Company		16,462	15,571	33,356	26,280
Non-controlling interests		(120)	–	(38)	–
		<u>16,342</u>	<u>15,571</u>	<u>33,318</u>	<u>26,280</u>
Dividends	(8)	<u>5,635</u>	<u>4,508</u>	<u>5,635</u>	<u>4,508</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share					
Basic	(9)	<u>3.51</u>	<u>3.46</u>	<u>7.13</u>	<u>5.83</u>
Diluted	(9)	<u>3.43</u>	<u>3.35</u>	<u>6.98</u>	<u>5.67</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	33,318	26,280
Other comprehensive income:		
Exchange differences on translation of:		
– Financial statements of overseas subsidiaries	1,706	664
– Revaluation of overseas buildings	65	33
Release of share of other reserves of associates	(5,855)	–
	<hr/>	<hr/>
Other comprehensive (expense) income for the period, net of tax	(4,084)	697
	<hr/>	<hr/>
Total comprehensive income for the period	29,234	26,977
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
Shareholders of the Company	29,267	26,977
Non-controlling interests	(33)	–
	<hr/>	<hr/>
	29,234	26,977
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 June 2011 <i>HK\$'000</i>	(Audited) 31 December 2010 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	(10)	28,655	26,880
Intangible assets		76,890	64,792
Lease premium for land		1,238	1,235
Goodwill		3,900	3,900
Investment in associates		–	8,536
Available-for-sales financial asset	(11)	8,849	–
		119,532	105,343
Current assets			
Lease premium for land		34	34
Inventories		45,708	23,171
Trade receivables	(12)	38,096	41,065
Other receivables, deposits and prepayments		37,510	19,996
Pledged bank deposits		2,001	2,000
Time deposits		33,669	54,517
Cash and bank balances		64,005	65,587
		221,023	206,370
Current liabilities			
Trade payables	(13)	10,035	473
Bill payables		–	1,402
Other payables		44,829	38,340
Bank borrowings	(14)	6,940	17,756
Obligation under finance lease		146	140
Tax payables		2,977	2,910
		64,927	61,021
Net current assets		156,096	145,349
Total assets less current liabilities		275,628	250,692

		30 June	31 December
		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital	(15)	23,478	23,292
Reserves		239,755	217,772
Equity attributable to shareholders of the Company			
Non-controlling interests	(16)	263,233	241,064
		251	284
Total equity		263,484	241,348
Non-current liabilities			
Deferred tax liabilities		11,858	8,984
Obligation under finance lease		286	360
		12,144	9,344
		275,628	250,692

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to the shareholders of the Company								Attributable to non-controlling interests	Total	
	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other reserves	Revaluation reserve	Exchange reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2011	23,292	103,143	9,200	1,969	5,855	3,818	5,774	88,013	241,064	284	241,348
Employee share option benefits	-	-	-	601	-	-	-	-	601	-	601
Exercise of share options	186	2,201	-	(702)	-	-	-	-	1,685	-	1,685
Profit for the period	-	-	-	-	-	-	-	33,356	33,356	(38)	33,318
Other comprehensive expenses for the period	-	-	-	-	(5,855)	65	1,701	-	(4,089)	5	(4,084)
Total comprehensive income for the period	-	-	-	-	(5,855)	65	1,701	33,356	29,267	(33)	29,234
2010 final dividend paid	-	-	-	-	-	-	-	(9,384)	(9,384)	-	(9,384)
At 30 June 2011	<u>23,478</u>	<u>105,344</u>	<u>9,200</u>	<u>1,868</u>	<u>-</u>	<u>3,883</u>	<u>7,475</u>	<u>111,985</u>	<u>263,233</u>	<u>251</u>	<u>263,484</u>
At 1 January 2010	22,506	63,491	9,200	1,190	-	3,689	2,950	41,704	144,730	-	144,730
Employee share option benefits	-	-	-	390	-	-	-	-	390	-	390
Exercise of share options	36	237	-	(71)	-	-	-	-	202	-	202
Profit for the period	-	-	-	-	-	-	-	26,280	26,280	-	26,280
Other comprehensive income for the period	-	-	-	-	-	33	664	-	697	-	697
Total comprehensive income for the period	-	-	-	-	-	33	664	26,280	26,977	-	26,977
2009 final dividend paid	-	-	-	-	-	-	-	(7,209)	(7,209)	-	(7,209)
At 31 June 2010	<u>22,542</u>	<u>63,728</u>	<u>9,200</u>	<u>1,509</u>	<u>-</u>	<u>3,722</u>	<u>3,614</u>	<u>60,775</u>	<u>165,090</u>	<u>-</u>	<u>165,090</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”), Interim Financial Reporting.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and method of computation used in the unaudited consolidated statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations (the “new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 7 and HKAS 1
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

Application of the above new or revised HKFRSs has had no material effect on the amounts reported in the unaudited condensed consolidated financial statements and/or disclosures set out in the unaudited condensed consolidated financial statements.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC)–Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and difference between the carrying amount of financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The Group has not early applied the following new and revised standards and interpretations that have been issued after the date the consolidated financial statements for year end 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 1 (Amendments)	Severe hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9 (Revised)	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ³
HKFRS 11	Joint Arrangements ³
HKFRS 12	Disclosures of Interests in Other Entities ³
HKFRS 13	Fair Value Measurement ³
HKAS 12 (Amendments)	Income Taxes-Amendments ²
HKAS 19 (as revised in 2011)	Employee Benefits ³
HKAS 27 (as revised in 2011)	Separate Financial Statements ³
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ³

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 January 2013

The amendments to HKFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 has no impact to the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification of HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the entity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of HKFRS 11 has no impact to the Group.

The Directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the consolidated financial statements.

The consolidated results for the six months ended 30 June 2011 have not been audited by the Group's auditors, but have been reviewed by the Group's auditors and the audit committee.

2. TURNOVER

The principal activities of the Group are development, manufacturing and sales of pharmaceutical products. During the period, turnover represents the net amount received and receivable for goods sold by the Group to outside customers.

3. SEGMENT INFORMATION

Business segments

The following table presents turnover and results of the Group's business segments for the six months ended 30 June 2011.

	Proprietary products		License-in products		Consolidated	
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	84,518	61,047	80,105	44,240	164,623	105,287
Segment results	21,959	22,042	13,948	13,793	35,907	35,835
Interest income					232	81
Gain on deemed disposal of a subsidiary					–	234
Gain on deemed disposal of associates					6,441	–
Unallocated expenses					(4,057)	(4,115)
Profit from operations					38,523	32,035
Finance costs					(460)	(521)
Share of results of associates					(273)	(463)
Profit before taxation					37,790	31,051
Taxation					(4,472)	(4,771)
Profit for the period					33,318	26,280

Geographical segments

During the six months ended 30 June 2011 and 2010, more than 90% of the Group's turnover was derived from activities conducted in the People's Republic of China (the "PRC"), no geographical segmental information is presented.

4. GAIN ON DEEMED DISPOSAL OF ASSOCIATES

	(Unaudited) For the three months ended 30 June 2011 <i>HK\$'000</i>	(Unaudited) For the six months ended 30 June 2011 <i>HK\$'000</i>
Fair value at the date of deemed disposal of associates	–	8,849
Carrying amount of investment on the date of deemed disposal of associates	–	(8,263)
Release of share of other reserves of associates	–	5,855
	<hr/>	<hr/>
Gain on deemed disposal of associates	<u>–</u>	<u>6,441</u>

On 2 March 2011, Powder Pharmaceuticals Incorporated ("Powder") issued 30,000 shares to new shareholders and the Group's equity interests in Powder reduced from 25.36% to 15.85%. Hence, investment in Powder became available-for-sales financial asset as the Group has lost the significant influence over Powder.

5. SHARE OF RESULTS OF ASSOCIATES

Summarised financial information in respect of the Group's associates is set out below:

	(Unaudited) For the three months ended 30 June 2011 <i>HK\$'000</i>	(Unaudited) For the six months ended 30 June 2011 <i>HK\$'000</i>
Total loss for the period to the date of disposal	–	1,077
	<hr/>	<hr/>
Group's share of loss of associates	<u>–</u>	<u>273</u>

6. PROFIT FROM OPERATIONS

	(Unaudited)		(Unaudited)	
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	1,835	1,500	3,580	2,955
Amortisation of lease premium for land	10	8	18	16
Amortisation of intangible assets	777	387	1,655	636
	<u>2,622</u>	<u>1,895</u>	<u>5,253</u>	<u>3,607</u>
Total depreciation and amortisation				
Allowance (written back) for bad and doubtful debts	301	(3)	759	54
	<u>301</u>	<u>(3)</u>	<u>759</u>	<u>54</u>

7. TAXATION

	(Unaudited)		(Unaudited)	
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong Profits Tax	1,126	–	1,126	–
PRC Enterprise Income Tax	214	1,181	539	1,650
Overprovision in prior year	–	(14)	–	(14)
	<u>1,340</u>	<u>1,167</u>	<u>1,665</u>	<u>1,636</u>
Deferred tax				
Provision of current period	1,298	1,591	2,807	3,135
	<u>1,298</u>	<u>1,591</u>	<u>2,807</u>	<u>3,135</u>
	<u>2,638</u>	<u>2,758</u>	<u>4,472</u>	<u>4,771</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit in Hong Kong for the period.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

8. DIVIDENDS

	(Unaudited)		(Unaudited)	
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interim dividend declared of HK\$0.012 (2010:HK\$0.01) per ordinary share based on issued share capital at the end of the reporting period	5,635	4,508	5,635	4,508

Interim dividend will be payable on 13 October 2011 to shareholders registered in the Company's Register of Members as at the close of business on 16 September 2011. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

2010 final dividend of HK\$0.02 per share, totalling HK\$9,383,409 was paid in May 2011.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	(Unaudited)		(Unaudited)	
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2011	2010	2011	2010
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK\$16,462,000	HK\$15,571,000	HK\$33,356,000	HK\$26,280,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	469,334,393	450,658,262	467,803,476	450,477,023
Effect of dilutive potential ordinary shares:				
Options	10,032,058	13,856,427	10,101,554	12,955,013
Weighted average number of ordinary shares for the purpose of diluted earnings per share	479,366,451	464,514,689	477,905,030	463,432,036

As per shareholders' agreement ("the Agreement") of Powder signed on 8 January 2010, the shareholders (except Lee's Pharmaceutical International Limited) of Powder shall be entitled to exercise the rights to convert, (and not parts) of its shares free from encumbrances to shares of the Company. The shareholders can convert the shares at valuation of HK\$1.80 per share, subject to adjustments, starting from the day after the 3rd anniversary and ending on the day immediately before the 5th anniversary of the date of agreement, i.e. from 8 January 2013 to 7 January 2015 ("the conversion period").

Thus, the shareholders of Powder could convert 21,898,456 shares of the Company during the conversion period which the contingent share agreement will cause dilution of earnings per share of the Company. Earnings per share of the Company will be diluted accordingly since 8 January 2013. No dilution effect is resulted from this Agreement in the current reporting period.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2011, additions to property, plant and equipment amounted to HK\$4.97 million.

11. AVAILABLE-FOR-SALES FINANCIAL ASSET

At date of deemed disposal of associates Powder and its group, the fair value of investment retained is HK\$8,849,000 approximately. According to HKAS 28 Investments in Associates, upon disposal, the fair value becomes the carrying value of the unlisted available-for-sales financial asset.

12. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers. The fair value of the Group's trade receivables at 30 June 2011 approximate to the corresponding carrying amount.

The following is an aging analysis of trade receivables at the end of the reporting periods.

	(Unaudited) 30 June 2011 <i>HK\$'000</i>	(Audited) 31 December 2010 <i>HK\$'000</i>
0-90 days	34,434	39,642
91-180 days	2,721	1,133
181-365 days	1,881	580
Over 365 days and under 3 years	475	360
	<hr/>	<hr/>
	39,511	41,715
Less: Allowance for bad and doubtful debts	(1,415)	(650)
	<hr/>	<hr/>
	38,096	41,065
	<hr/> <hr/>	<hr/> <hr/>

13. TRADE PAYABLES

The fair value of the Group's trade payables as at 30 June 2011 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at the end of the reporting periods.

	(Unaudited) 30 June 2011 <i>HK\$'000</i>	(Audited) 31 December 2010 <i>HK\$'000</i>
0-90 days	9,039	357
91-180 days	972	45
181-365 days	23	71
Over 365 days	1	–
	<u>10,035</u>	<u>473</u>

14. BANK BORROWINGS

	(Unaudited) 30 June 2011 <i>HK\$'000</i>	(Audited) 31 December 2010 <i>HK\$'000</i>
Carrying amount of the borrowings are repayable:		
Within one year	2,667	12,224
More than one year but not exceeding two years	2,010	2,176
More than two years but not more than five years	2,263	3,356
	<u>6,940</u>	<u>17,756</u>

The carrying amounts of bank borrowings are denominated in the following currencies:

	(Unaudited) 30 June 2011 <i>HK\$'000</i>	(Audited) 31 December 2010 <i>HK\$'000</i>
Renminbi	–	9,440
Hong Kong dollars	6,940	8,316
	<u>6,940</u>	<u>17,756</u>

The effective interest rates of the bank borrowings range from 4% to 6% per annum.

15. SHARE CAPITAL

	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
Authorised:		
At 30 June 2011 and 31 December 2010	1,000,000,000	50,000

Issued and fully paid:

	Number of ordinary shares of HK\$0.05 each		Amount	
	Six months ended 30 June 2011 (Unaudited)	Year ended 31 December 2010 (Audited)	Six months ended 30 June 2011 (Unaudited) HK\$'000	Year ended 31 December 2010 (Audited) HK\$'000
At beginning of the period	465,832,437	450,112,437	23,292	22,506
Exercise of share options	3,718,000	720,000	186	36
Issue of ordinary shares	–	15,000,000	–	750
At end of the period	<u>469,550,437</u>	<u>465,832,437</u>	<u>23,478</u>	<u>23,292</u>

16. NON-CONTROLLING INTERESTS

	(Unaudited) 30 June 2011 HK\$'000	(Audited) 31 December 2010 HK\$'000
33% of registered capital	380	380
Share of loss for non-controlling interests	(142)	(104)
Share of exchange reserve on consolidation	13	8
	<u>251</u>	<u>284</u>

There were no transactions with non-controlling interests during the interim period.

17. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

(a) Related party transactions

Name of related party	Note	Nature of transaction	(Unaudited) For the six months ended 30 June	
			2011 HK\$'000	2010 HK\$'000
Sigma-Tau Group	(1)	Purchase of pharmaceutical product	22,612	4,250
			_____	_____

Note (1): Defiante Farmaceutica, S.A. is a shareholder of the Company which is also a member of Sigma-Tau Group.

(b) Compensation of directors of the Group

	(Unaudited) For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Short-term employee benefits	2,965	2,641
Post-employment benefits	18	18
Share-based payments	256	88
	3,239	2,747
	_____	_____

18. CAPITAL COMMITMENTS

	(Unaudited) 30 June 2011 HK\$'000	(Audited) 31 December 2010 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of:		
Intangible assets – license fee	19,627	29,066
Property, plant and equipment	2,829	7,232
	22,456	36,298
	_____	_____

19. PLEDGED OF ASSETS

As at 30 June 2011, the Group did not pledge leasehold land and building (31 December 2010: HK\$8,678,271) and pledged bank deposit of HK\$2,001,000 (31 December 2010: HK\$2,000,000) to secure general banking facilities granted to the Group.

In addition, the Group's obligations under finance lease are secured by the lessors' title to the motor vehicle, which have a carrying amount of HK\$623,722 (31 December 2010: HK\$664,400).

20. EVENTS AFTER THE END OF THE INTERIM PERIOD

Zhaoke Pharmaceutical (Guangzhou) Limited bought a land through 廣州市南沙區房地產交易中心 in July 2011 at a consideration of RMB5,070,000 for building a new factory. The land is located at 廣州南沙區珠江工業園. Directors estimated that the future construction cost for the factory would be around RMB59,500,000 approximately.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 15 September 2011 to Friday, 16 September 2011 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1726, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 14 September 2011.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company listed securities during the six months ended 30 June 2011.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The interim results for the six months ended 30 June 2011 are unaudited, but have been reviewed by auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

An audit committee was set up with written terms of reference in compliance with Rules 3.21 of the Main Board Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

The audit committee has reviewed with the management and auditors this unaudited interim report for the six months ended 30 June 2011 before recommending it to the Board for approval.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of Main Board Listing Rules throughout the six months ended 30 June 2011, with deviations from provision B.1 of the Code.

Under provision B.1 of the Code, a remuneration committee should be established to make recommendations to the Board on the policy and structure for all remuneration of directors and senior management. The Board considers that the Company needs not set up a remuneration committee as remuneration of directors and senior management are determined by the Board in accordance with the Articles of Association of the Company.

As at the date of this announcement, the Board comprises the following directors:

Executive directors:

Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

Non-executive director:

Mr. Mauro Bove

Independent non-executive directors:

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

By order of the Board

Lee Siu Fong

Chairman

Hong Kong, 22 August 2011